

INTERNATIONAL TOURISM ACTIVITY UNDER THE EFFECTS OF THE WORLD ECONOMY SLOWDOWN

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Abstract

As a result of the extremely volatile world economy in 2008, tourism demand slowed significantly through the year. The last six months of 2008, in particular, showed an abrupt shift in trends with international tourist arrivals flat or showing negative growth. Overall, the 5% growth of the tourism world demand between January and June gave way to a 1% decline in the second half of the year.

In 2009, the decline in international tourism may have started to bottom out, according to the latest edition of the UNWTO World Tourism Barometer. Worldwide, international tourist arrivals declined by 7% between January and August 2009, but the rate of decline has eased in the past few months. These results, as well as the most recent economic data, confirm UNWTO's initial forecast of a 5% decline in international tourist arrivals for the full year 2009.

UNWTO's initial forecast for 2010 indicates that international tourist arrivals are likely to witness a moderate recovery next year, with growth at +1% to +3%.

Keywords: financial crisis, recession, stagnation, incertitude.

JEL Classification: F01, L83, M16

1. Introduction

The world economy is facing a deep downturn in 2009, global growth being expected to fall to 0.5%, its lowest rate since the World War II.

Helped by continued efforts to ease credit strains as well as expansionary fiscal and monetary policies, the global economy is projected to experience a gradual recovery in 2010, with growth picking up to 3 percent. However, the outlook is highly uncertain, and the timing and pace of the recovery depend critically on strong policy actions.

Though certainly not immune to the economic woes, tourism has initially resisted the economic downturn better than other economic sectors, such as construction, real estate or car manufacturing.

In 2009, the world's tourism industry was faced with a large number of

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challenges, led by the global economic crisis, the credit crunch and rising unemployment, not to mention the influenza pandemic.

2. Overview of the World Economy

The financial crisis that erupted in the United States around mid-2007 has broadened to include non-bank financial institutions and rapidly spread to the rest of the world. Following the collapse of Lehman Brothers in mid-September 2008, a generalized loss of confidence between financial institutions triggered reactions akin to a “blackout” in global financial markets. Spreads in credit and bond markets surged to very high levels, paralyzing credit and money markets. Prompt and massive policy action to restore confidence and provide liquidity appears to have successfully limited the period of panic, but the need for financial institutions to operate with less leverage and to repair their balance sheets remains. This process of adjustment will take time and impair the flow of credit, and is the key factor weighing on activity going forward.

Despite wide-ranging policy actions, financial strains remain acute, pulling down the real economy all over the world, in 2009. In accordance with the projections drawn up by the specialists of the International Monetary Fund, the world economy is facing a deep downturn in 2009, global growth being expected to fall to 0.5%, its lowest rate since the World War II.

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Against this uncertain backdrop, output in the advanced economies is now expected to contract by 2 percent in 2009. This would be the first annual contraction during the postwar period, with a cumulative output loss comparable to the 1974-75 and 1980-82 periods. Nevertheless, assuming more comprehensive and coordinated financial policy actions that support a gradual normalization of financial market conditions, as well as sizable fiscal stimulus and large interest rate cuts in many advanced economies, output is expected to start recovering in late 2009 and rise by about 1 percent in 2010. Stabilization in the U.S. housing market should help underpin recovery during this period.

Growth in emerging and developing economies is expected to slow sharply from 6.25 percent in 2008 to 3.25 percent in 2009, under the drag of falling export demand and financing, lower commodity prices, and much tighter external financing constraints (especially for economies with large external imbalances). Stronger economic frameworks in many emerging economies have provided strong bases for policy support to growth than in the past, helping to cushion the impact of this unprecedented external shock. Accordingly, although these economies will

experience serious slowdowns, their growth is projected to remain at or above rates seen during previous global downturns. Developing countries in Africa and elsewhere are considered also to be better prepared this time to face policy challenges because of improved macroeconomic policy implementation, but the continent is in a weaker position than most other regions because of its poverty levels and reliance on commodity exports.

The contraction in activity observed in the EU-27 during 2008 was particularly severe in respect to industrial and construction activities. For example, the EU-27's seasonally adjusted index of production for total industry fell to 102.0 (2000=100) in December 2008, its lowest level since March 2004. In December, EU-27 industrial output was more than 10% below its peak level recorded in January 2008.

A similar picture was observed for the construction activity, where the index of production fell, on average, by 0.4 % each month during the 12 months to November 2008, compared with an expansion of 0.1 % per month since the start of 2000.

In 2008, there was some evidence of a slowdown in EU-27 activity for retail trade (as measured by deflated sales), with a slight contraction over the last 12 months.

In contrast, the value of turnover within services continued to expand (note again that these figures are not deflated, but in current prices), EU-27 sales of services rose by an average of 0.6 % during the 12 months to September 2008 (slightly faster than their average growth rate since 2000, 0.5 %), compared with an average month on month percentage change of 0.2 % for the all-items consumer price index over the same period.

One of the most striking features is the severity of the reductions in EU-27 output at the end of 2008. Indeed, EU-27 production of consumer durables and consumer non-durables fell by 11.1 % and 3.9 % respectively between August 2007 and November 2008, while the output of intermediate goods and capital goods contracted by 11.0% and 9.3% respectively between February and November 2008.

Evolution of EU-27 output over the previous 12-month period shows the following relevant aspects:

- A comparison (based on a working day adjusted series) between November 2007 and November 2008 shows that the index of production for total industry fell by 6.6 % in Germany, 8.0 % in the United Kingdom, 9.7 % in Italy, 10.7 % in France and 15.1 % in Spain.

- On the basis of a comparison between November 2007 and November 2008, the working day adjusted index of production for construction was 1.8% lower in Germany, 2.2% lower in France, 5.7% lower in the United Kingdom and 9.7% lower in Spain.

- The contraction in the EU-27's motor vehicles manufacturing activity was 21.0% between November 2007 and November 2008; this downturn may, at least in part, explain the double-digit losses recorded for basic metals or rubber and plastics

manufacturing. Motor vehicle manufacturing recorded some of the biggest declines in output between November 2007 and November 2008 – in particular, within Bulgaria, Spain, France, Italy and Sweden, where reductions were between 31 % and 36 % overall.

- The largest declines in EU-27 activity were generally concentrated among the manufacturing activities. Many of the sectors that appear to have been worst hit during the start of the recession may be characterized by the fact that they have, for a fairly lengthy period of time, displayed contractions in their respective levels of output. Industrial activities which have been in steady decline within the EU-27 for a period of two decades or more include extractive industries, the processing of tobacco, textiles and leather, or the manufacture of clothing, furniture and other manufacturing not elsewhere classified (which includes items such as jewelries, toys and sports goods). The majority of these activities concern bulk, raw materials or the manufacture of non-food consumer goods. The largest declines in output have been registered in Denmark and Finland, were recorded for the manufacture of clothing, while in Greece the biggest losses were recorded for the manufacture of textiles, in Germany for tobacco processing, in Hungary for coal mining, etc. Each of these activities also reported that output had fallen to below 50 % of its level in 2000.

- The latest information available for the services sector showed that output continued to grow in the EU-27 for almost all of the activities; the exceptions being air transport and hotels and restaurants (both of which are characterized as having important business and consumer markets), and motor trades, where EU-27 sales were down by 8.1 %.

3. World overview of the international tourism activity, in 2008 and 2009

As a result of the extremely volatile world economy in 2008, tourism demand slowed significantly through the year. The last six months of 2008, in particular, showed an abrupt shift in trends with international tourist arrivals flat or showing negative growth. Overall, the 5% growth of the tourism world demand between January and June gave way to a 1% decline in the second half of the year.

In 2008, international tourist arrivals reached 924 million up 16 million over 2007, representing a growth of 2% (Table No.1, Figure No.1).

The overall 2% growth in international tourism for 2008 builds on the strong results of the first part of the year before the collapse of the financial markets. The second half of the year showed an abrupt shift in trend with international tourist arrivals flat or showing negative growth in each of the last six months of 2008. Overall, the 5% growth between January and June gave way to a 1% decline in the second half of the year. Though certainly not immune to the economic woes, tourism has initially resisted the economic downturn better than other economic sectors, such as construction, real estate or car manufacturing.

For the year as a whole, all regions were positive except Europe, which suffered stagnation in arrivals. The best performances were registered in the Middle East (+11%), Africa (+5%) and the Americas (+4%) – in the case of the Americas, due to the strength of traffic to the USA up to August and the favorable performance of most Central and Southern American destinations.

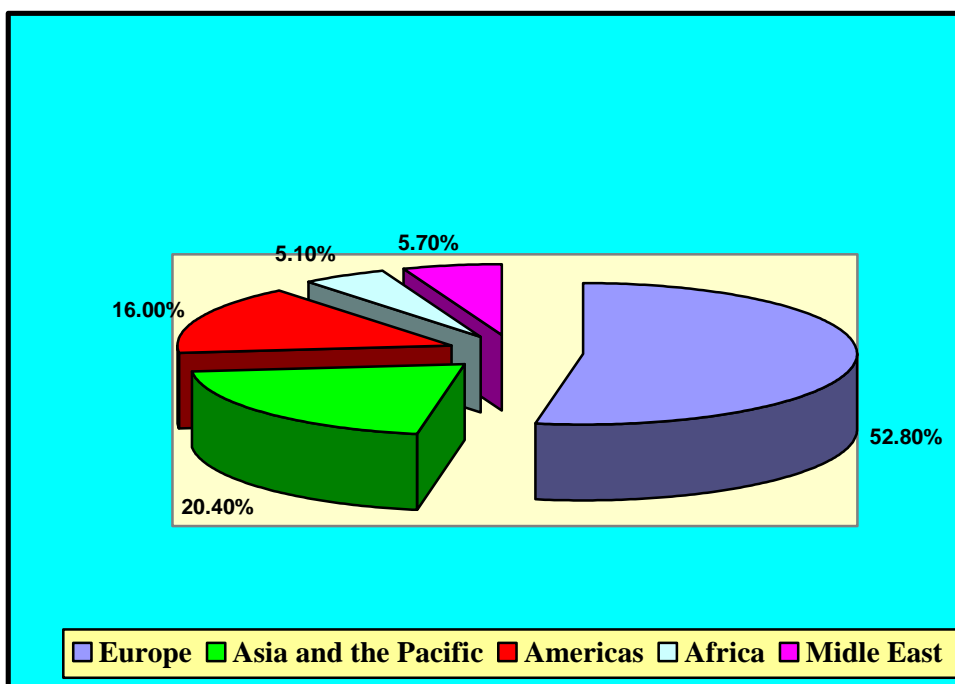
Growth was negative in the last six months of 2008 in both Europe (-3%) and Asia (-3%). The drop is even more significant in Asia given its double digit growth in 2007 and strong showing in the first part of 2008 (+6%). On the other hand, the Americas (+1%), Africa (+4%) and the Middle East (+5%) still posted positive results in the second half of the year, although with a significant slowdown compared with the period between January and June.

Tabelul nr. 1. World tourism activity during 2006 – 2008

	International tourism arrivals (milions)			Changes 2008/2007 +/- %	2008 (%)
	2006	2007	2008		
WORLD	808.5	908.3	924.2	1.8	100.0
Europe	444.0	488.0	488.5	0.1	52.8
• Northern Europe	51.8	58.0	56.8	-2.1	6.1
• Western Europe	141.1	154.9	153.1	-1.2	16.6
• Central/Eastern Europe	92.3	96.8	99.4	2.6	10.8
• Southern/Medit Europe	158.8	178.2	179.2	0.6	19.4
Asia and the Pacific	156.2	185.4	188.3	1.6	20.4
• North-East Asia	87.5	104.3	104.7	0.4	11.3
• South-East Asia	50.2	59.6	61.8	3.6	6.7
• Oceania	10.6	10.7	10.6	-1.5	1.1
• South Asia	7.9	10.8	11.3	4.3	1.2
Americas	133.2	142.5	147.6	3.6	16.0
• North America	89.4	95.3	98.4	3.2	10.6
• Caribbean	19.2	19.5	19.7	1.2	2.1
• Central America	6.6	7.8	8.4	7.9	0.9
• South America	18.0	19.9	21.1	5.9	2.3
Africa	36.7	44.9	46.9	4.6	5.1
Midle East	38.4	47.5	52.9	11.3	5.7

Source: UNWTO, January 2009

Figure No.1. International tourist arrivals by regions, in 2008



Source: UNWTO, January 2009

In 2008, despite the general deceleration, several destinations around the world showed very positive results in all world regions, notably Honduras. Nicaragua. Panama. Uruguay. the Republic of Korea. Macao (China). Indonesia. India. Egypt. Lebanon. Jordan. Morocco and Turkey.

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As experienced in previous crises, tourism earnings have suffered somewhat more than arrivals as consumers tend to trade down, stay closer to home and travel for shorter periods of time. Receipts from international tourism are estimated to have contracted in real terms by 9% to 10% in the first six months of 2009, i.e. 1 to 2 percentage points below the decline in international arrivals during that period (-8%).

Throughout this year, the world's tourism industry was faced with a large number of challenges, led by the global economic crisis, the credit crunch and rising unemployment, not to mention the influenza pandemic.

4. Tourism activity in EU-27, in 2008

In 2008, for the first time since 2003, the number of nights spent in hotels and similar establishments in the European Union showed a small decrease (-0.5%) compared with the previous year. Nights spent by residents remained stable, whereas nights spent by non-residents went down by 1%.

Intra-annual data shows that the economic and financial crisis started to have an effect in the course of the year. In the period January to April 2008, the number of nights spent went up by 1.6% compared with the same period in 2007, while a decline by - 0.5% was reported for the period May-August. In the last four months of the year, the total number of nights spent contracted by 3.2%. While the number of nights spent by residents (domestic tourists) remained stable, the number of nights spent by non-residents (inbound tourists) dropped by 1.1%. On aggregate, the total number of nights spent in hotels and similar establishments decreased by 0.5% (Table No.1). The data from Table No.2 show a heterogeneous pattern across Europe. The biggest decreases were observed in Cyprus (-4.8%), Greece (-4.6%), the Netherlands (-4.1%), Denmark (-3.0%) and Italy (-2.9%). Taking into account their weight in the EU tourism market, Italy and Spain were, in absolute terms, the main contributors to the negative growth at the level of the EU. In 14 of the 27 Member States, the number of nights spent went up in 2008. The highest increases were observed in Slovakia (+7.7%), Poland (+4.7%) and Latvia (+4.6%). In absolute terms, the growth in Germany and in Austria contributed most to the smoothening of the negative growth at the level of the EU.

When looking at the 10 Central European countries that joined the EU in 2004 and 2007, the data shows that in all countries except Hungary (-0.3%) the number of nights spent increased in 2008, compared with the previous year. In 2008, these 10 Member States represented on aggregate 8.2% of all nights spent in hotels and similar establishments in the EU (see Table 2). More than 70% of the nights were spent in 5 of the 27 Member States: Spain, Italy, Germany, France, and UK – Figure No.2.

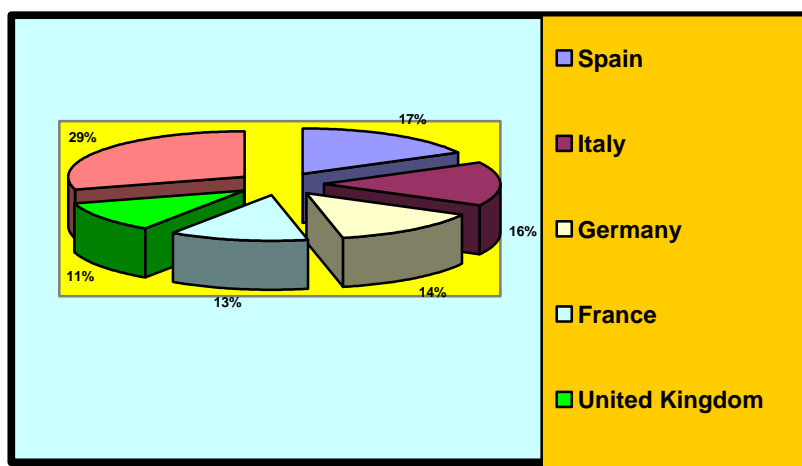
Table No. 2. Number of nights spent in hotels and similar establishments,
(Percentage change 2008 compared with 2007)

Member states	2008/2007 +/- %		
	Total	UE non-residents	UE residents
EU-27	-0.5	-1.1	0.0
-Belgium	2.2	1.2	4.2
-Bulgaria	1.7	-2.3	11.3
-Czech Republic	3.8	2.0	7.3
-Denmark	3.0	-2.5	-3.3
-Germany	1.9	2.2	1.9

-Estonia	1.1	2.2	-1.5
-Ireland	-0.5	1.2	-4.1
-Greece	-4.6	-5.1	-3.4
-Spain	-1.1	0.2	-3.0
-France	-0.2	-1.2	0.4
-Italy	-2.9	-4.5	-1.6
-Cyprus	-4.8	-4.4	-8.7
-Latvia	4.6	8.0	-1.5
-Luxembourg
-Hungary	-0.3	-1.4	1.0
-Malta	-1.4	-1.5	0.2
-Netherlands	-4.1	-7.1	-1.4
-Austria	3.7	4.1	2.6
-Poland	4.7	-4.9	9.9
-Portugal	-0.2	-1.0	1.5
-Romania	1.0	-6.2	2.6
-Slovenia	1.9	-1.1	8.1
-Slovakia	7.7	1.9	14.7
-Finland	1.9	2.8	1.6
-Sweden	2.0	0.6	2.4
-United Kingdom	1.6	-1.8	-1.5

Source: Eurostat-2009

Figure No. 2. Share of main Member State in the total nights spent in hotels and similar establishments in the EU-27, in 2008



Source: Eurostat-2009

While nights spent in hotels and similar establishments dropped slightly, the number of holiday trips made by EU residents went up by 7.1% in 2008. Here too, the growth was less favorable in the second half of the year, especially as regards outbound trips. Furthermore, trips were on average shorter in 2008 than in the previous year.

However, this indicator, too, shows a declining pattern in the course of the year. The growth dropped from 8.6% in the first six months (compared with the first six months of 2007) to 5.3% in the second half of the year (Table No.3).

The growth in the number of outbound trips (+6.7%) was slightly lower than for domestic trips (+7.2%). In the second half of the year, the number of outbound trips was particularly affected by the economic slowdown with a growth of 2.6% compared with 6.2% for domestic holiday trips.

Over the past ten years, the fastest growing segment has been short breaks of 1 to 3 nights. This phenomenon continued in 2008, with growth of 9.3%. Although the growth rate for this type of trip dropped slightly in the second half of the year (+8.3%, compared to +9.8% in the first semester), it amply exceeded the growth rate for long trips of at least 4 nights which slowed down to 3.7% - Table No.4. This observation indicates that to a certain extent long trips were being substituted by short breaks.

An important indicator of tourism activity is air passenger transport. In 2008, the total number of passengers transported by air to, from or within the EU-27 increased by 1.6%. International air services (representing more than 75% of the market) grew by 1.9% while national air services – the smallest segment of the market – fell by 0.6%.

When analyzing the growth patterns for different periods throughout the year, similar conclusions can be drawn as for the tourist accommodation sector. A growth of 4.3% in the first four months (compared with the same period in 2007) changed into a contraction of 2.6% in the last four months of 2008. However, the slowdown is less pronounced than for the accommodation sector.

**Table No.3. Number of holiday trips made by EU-27 residents
(Percentage change 2008 compared with 2007)**

	Annual data 2008	First Semester 2008	Second Semester 2008
All holiday trips	7.1	8.6	5.3
- Domestic holiday trips	7.2	8.0	6.2
- Outbound holiday trips	6.7	10.5	2.6
Long holiday trips (total)	4.7	5.8	3.7

- Long domestic holiday trips	3.7	4.0	3.4
- Long outbound holiday trips	6.3	8.6	4.1
Short holiday trips (total)	9.3	9.8	8.3
- Short domestic holiday trips	9.4	9.3	9.8
- Short outbound holiday trips	7.9	15.3	-4.1

Source: Eurostat-2009

**Table No.4. Average length of holiday trips made by EU-27 residents
(Number of nights, 2008 compared with 2007)**

	2007	2008	2007/2008 (+/- %)
All holiday trips	5.81	5.65	-2.6
- Domestic holiday trips	4.86	4.74	-2.6
- Outbound holiday trips	9.06	8.84	-2.5

Sursa: Eurostat-2009

5. International tourism activity – 2010 outlook

UNWTO's initial forecast for 2010 indicates that international tourist arrivals are likely to witness a moderate recovery next year. with growth at +1% to +3%. This outlook reflects the gradual improvement of international tourism figures in recent months. as well as the better-than-expected economic indicators in some major source markets.

Asia will show the strongest rebound. while Europe and the Americas will probably take longer to recover. Africa is forecast to continue in positive territory as in 2009. with an extra boost from the 2010 FIFA World Cup in South Africa. Growth is also expected to return to the Middle East.

Despite the good news for the international tourism activity related to the end of the recession in a number of key markets, 2010 will still be a difficult year for this economic branch. The risks associated with the A(H1N1) influenza virus remain on the horizon and the pace of economic recovery is expected to be modest. The IMF projects economic growth worldwide at +3.1%, but this will still be fairly sluggish for advanced economies (+1.3%) and stronger for emerging ones (+5.1%). Unemployment. as a lagging indicator, is still expected to increase in many countries in 2009 and throughout 2010. Stimulus measures are likely to be phased out and, in a number of advanced economies, potential increases in taxation may put extra

pressure on household budgets. On the positive side, consumer confidence is giving signs of picking up, and interest rates and inflation are expected to remain at low levels.

Conclusions

As in previous crisis situations, UNWTO expects the following broad patterns in the sector in the short to medium term:

- traffic to closer destinations, including domestic travel, is expected to be favoured as compared to long-haul travel;
- segments such as visiting friends and relatives, repeat visitors, as well as special interest and independent travellers are expected to be more resilient;
- the decline in average length of stay as well as on expenditure is projected to be more pronounced than in the overall volume;
- destinations offering value for money and with favourable exchange rates have an advantage as price becomes a key issue;
- companies will and should concentrate on containment of cost in order to keep their competitive edge;
- more than ever it is necessary to closely work together in the tourism value chain, between public and private sector, and destinations with trade.

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